

ORIGINAL



Ronald L. Kozoman
Certified Public Accountant
1605 W. Mulberry Drive
Phoenix, AZ 85015



(602) 274-7325

FAX (602) 274-7374

Toll Free 888-293-7503

W-04264A-04-0438

June 22, 2004

Ms. Carol O'Brien
Property Appraiser/Financial Analyst
Centrally Valued Properties
Arizona Department of Revenue
1600 West Monroe
Phoenix, AZ 85007

Arizona Corporation Commission

DOCKETED

JUN 22 2004

DOCKETED BY

AZ CORP COMMISSION
DOCUMENT CONTROL

2004 JUN 22 A 11:03

RECEIVED

Dear Ms. O'Brien

Thank you for checking my property tax computations for Woodruff Utility Company and Woodruff Water Company. Indeed, you are correct that I did not multiply the three average of revenue by two in determining the full cash value. Thus the property tax computations are in error.

I have corrected the property tax computations. I have also corrected the pages that rely on the property tax expense in the Certificate of Convenience and Necessity ("CC&N") filing. These pages consist of the projected Balance Sheet, (Schedule 1), the projected Income Statement, (Schedule 2) and the projected Cash Flow Statement (Schedule 3), as well as the Attachments (projected Balance Sheet and Income Statement) called for by the Arizona Corporation Commission filing requirements for a CC&N.

I will submit these revised schedules and attachments to the Arizona Corporation Commission.

In the property tax computations, I did not assume any plant to consist of Construction Work in Progress ("CWIP"), and therefore omitted the CWIP from the computations.

The service area is located in Pinal County (just to the west of Coolidge), hence the use of the statewide property tax rate of 12.18%.

In reviewing your computation of property taxes, it appears that you used the same revenues for both the wastewater and water. The wastewater is a separate utility and company, as is the water utility, and have separate revenues. The revenues for the wastewater utility, Woodruff Utility Company are \$121,603, \$453,713, \$880,237, \$1,306,640, and \$1,727,293 for the projected years 1 through 5 respectively. The revenues for the water utility, Woodruff Water Company are \$102,600, \$378,440, \$773,145, \$1,078,729, and \$1,433,609 for years 1 through 5 respectively.

I am attached the following to you to show that I have revised the property tax computation.

Woodruff Utility Company

Income Statement (Revised), showing total revenues (labeled as Schedule 2).
Computation of Property Tax (Revised), (labeled as Schedule 2b),
Listing of Plant (labeled as Schedule 1a, Summary Page), and
Plant and Accumulated Depreciation (labeled as Schedules 1a, Pages 1 through 5).

Also enclosed are the following for:

Woodruff Water Company

Income Statement (revised), showing total revenues (labeled as Schedule 2).
Computation of Property Tax (revised), (labeled as Schedule 2b),
Listing of Plant (labeled as Schedule 1.1 Summary Page), and
Plant and Accumulated Depreciation (labeled as Schedules 1a, Pages 1 through 5).

Again, thank you for checking my computations.

If you have any questions, please contact me.

Sincerely,



Ronald L. Kozoman, CPA

Copy to Docket Control, Arizona Corporation Commission
Copy to Norm James, Fennamore Craig Law Firm (With enclosures)
Copy to Karl Polen, Jr., Pivotal Group

ATTACHMENT C

PROFORMA BALANCE SHEET (WATER)

Page 1

Revised

Woodruff Water Company

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
ASSETS					
<u>Current Assets</u>					
Cash	\$ 30,388	\$ 160,048	\$ 510,992	\$ 1,082,174	\$ 1,756,487
Accounts Receivable	0	0	0	0	0
Other	0	0	0	0	0
Total Current Assets	<u>\$ 30,388</u>	<u>\$ 160,048</u>	<u>\$ 510,992</u>	<u>\$ 1,082,174</u>	<u>\$ 1,756,487</u>
<u>Fixed Assets</u>					
Utility Plant	\$ 5,476,800	\$ 6,818,300	\$ 7,072,000	\$ 7,844,900	\$ 8,552,625
(Less) Accumulated Depreciation	<u>(177,900)</u>	<u>(562,186)</u>	<u>(985,375)</u>	<u>(1,434,536)</u>	<u>(1,914,155)</u>
Net Plant in Service	\$ 5,298,900	\$ 6,256,114	\$ 6,086,625	\$ 6,410,364	\$ 6,638,470
Total Assets	<u>\$ 5,329,288</u>	<u>\$ 6,416,162</u>	<u>\$ 6,597,618</u>	<u>\$ 7,492,538</u>	<u>\$ 8,394,957</u>
LIABILITIES AND CAPITAL					
<u>Current and Accrued Liabilities</u>					
Accounts Payable	0	0	0	0	0
Notes Payable	0	0	0	0	0
Accrued Taxes	0	0	0	0	0
Accrued Interest	0	0	0	0	0
Other	0	0	0	0	0
Total Current and Accrued Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

ATTACHMENT C

PROFORMA BALANCE SHEET (WATER)

Page 2
Revised

Woodruff Water Company

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<u>Long-Term Debt</u>	0	0	0	0	0
<u>Deferred Credits</u>					
Advances in Aid of Construction	\$ 1,426,900	\$ 1,647,540	\$ 1,819,011	\$ 2,449,845	\$ 2,921,254
Contribution in Aid of Construction, Net of Amortization					
Accumulated Deferred Income Tax	-	-	-	-	-
Total Deferred Credits	\$ 1,426,900	\$ 1,647,540	\$ 1,819,011	\$ 2,449,845	\$ 2,921,254
<u>CAPITAL ACCOUNT</u>					
Common Stock	4,149,900	5,249,400	5,249,400	5,249,400	5,249,400
Preferred	0	0	0	0	0
Paid in Capital	0	0	0	0	0
Retained Earnings	(247,512)	(480,778)	(470,796)	(206,709)	224,301
Total Capital	\$ 3,902,388	\$ 4,768,622	\$ 4,778,604	\$ 5,042,691	\$ 5,473,701
TOTAL LIABILITIES AND CAPITAL	\$ 5,329,288	\$ 6,416,162	\$ 6,597,615	\$ 7,492,535	\$ 8,394,955

Woodruff Water Company
Projected Balance Sheets
For the Years Ended

Exhibit
Schedule 1
Page 1
Witness:
Kozoman
Revised

Line No.	Beginning of Year	Label	1st year Changes	Year				
				1	2	3	4	5
3		Assets						
5	-	Utility Plant	5,476,800	5,476,800	6,818,300	7,072,000	7,844,900	8,552,625
6	-	Accumulated Depreciation	(177,900)	(177,900)	(562,186)	(985,375)	(1,434,536)	(1,914,155)
8	25,000	Cash	5,388	30,388	160,048	510,992	1,082,174	1,756,487
11	\$ 25,000	Total Assets	\$ 5,304,288	\$ 5,329,288	\$ 6,416,162	\$ 6,597,618	\$ 7,492,538	\$ 8,394,957
13		Equity and Liabilities						
15		Equity						
17	25,000	Common Stock	4,124,900	4,149,900	5,249,400	5,249,400	5,249,400	5,249,400
19		Retained Earnings	(247,512)	(247,512)	(480,778)	(470,796)	(206,709)	224,301
20	\$ 25,000	Total Equity	\$ 3,877,388	\$ 3,902,388	\$ 4,768,622	\$ 4,778,604	\$ 5,042,691	\$ 5,473,701
22		Liabilities & Deferred Credits						
23		Advances in Aid of Construction	-	1,306,900	1,297,540	1,261,511	1,710,915	2,025,094
24		Contributions in Aid of Construction	-	-	-	3	3	3
25		Construction	-	-	-	(0)	(0)	(1)
26		Less: Amortization	-	-	-			
27		Customer Deposits	-	120,000	350,000	557,500	738,930	896,160
28		Meter Deposits	-	-	-	-	-	-
29		Long-Term Debt	-	-	-	-	-	-
31		Total Liabilities and Deferred Credits	1,426,900	1,426,900	1,647,540	1,819,014	2,449,847	2,921,256
35	\$ 25,000	Total Equity & Liab.	\$ 5,304,288	\$ 5,329,288	\$ 6,416,162	\$ 6,597,618	\$ 7,492,538	\$ 8,394,957
36		(a) Plant Additions (See Schedules 1.1 and 1a)						
37		(b) Depreciation Computations (See Schedule 1a)						
38		(c) Change in cash (Please Schedule 3)						
39		(d) Common Stock issuance and or repurchase. (See Schedule 1b)						
40		(e) Profit or loss from operations (See Schedule 2)						
41		(f) Advances in Aid of Construction (See Schedule 1c)						
42		(g) Contributions in Aid of Construction (See Schedule 1e)						
43		(h) Amortization of Contributions in Aid of Construction, if applicable (See Schedule 1e)						
44		(i) Security deposits (2 times average bill)						

Woodruff Water Company
Projected Statements of Income
For the 12 Months Ended

Exhibit
Schedule 2
Page 1
Witness: Kozoman
Revised

Line No.		Year				
		1	2	3	4	5
1		\$ 102,600	\$ 378,440	\$ 733,145	\$ 1,087,729	\$ 1,433,609
2						
3	Total estimated Revenues					
4	Expenses					
5	Pumping Power - All	8,100	32,811	67,264	101,717	134,938
6	Wages	50,000	51,500	53,045	54,636	56,275
7	Payroll Burden	16,500	16,995	17,505	18,030	18,571
8	Permits (Not Capitalized to Plant)	5,000	5,000	5,000	5,000	5,000
9	Licenses (Not Capitalized to Plant)	2,000	2,060	2,122	2,185	2,251
10	Engineering (Not Capitalized to Plant)	2,000	2,060	2,122	2,185	2,251
11	Chemicals	6,000	9,000	12,000	15,000	18,000
12	Supplies	4,000	5,000	6,000	7,000	8,000
13	Repairs	2,000	6,000	9,000	12,000	15,000
14	Insurance (b)	4,000	4,120	4,244	4,371	4,502
15	Office Expense	1,000	3,000	5,000	7,000	9,000
16	Billing, Postage, Operations (a)(b)	2,700	10,845	21,744	32,643	43,533
17	Contract Labor	2,000	2,060	2,122	2,185	2,251
18	Administrative Services	40,000	41,200	42,436	43,709	45,020
19	Rentals	3,000	3,090	3,183	3,278	3,377
20	Depreciation net of Amortization of CIAC (From Schedules 1a & 1e)	177,900	384,286	423,189	449,161	479,619
21	Vehicles (b)	\$ 2,500	2,575	2,652	2,732	2,814
22	Legal & Accounting (b)	\$ 12,000	12,360	12,731	13,113	13,506
23	Miscellaneous Expenses (b) (e)	\$ 2,400	2,472	2,546	2,623	2,701
24	Testing (d)	1,500	4,525	7,555	10,580	13,605
25	Income Taxes	50	50	50	50	80,261
26	Property Taxes (f)	5,837	11,528	24,511	44,509	66,020
27						
28	Total Expense	\$ 350,487	\$ 612,537	\$ 726,019	\$ 833,708	\$ 1,026,496
29						
30	Operating income (loss)	\$ (247,887)	\$ (234,097)	\$ 7,125	\$ 254,021	\$ 407,113
31	Less:					
32	Interest (Expense)Income on Cash Balance (c)					
33	Interest Expense Long-term Debt (c)		831	2,857	10,066	23,897
34	Net Income	\$ (247,512)	\$ (233,266)	\$ 9,982	\$ 264,087	\$ 431,010
35	Income Tax assumes utilization of loss carryforwards. Income Tax computed on book basis.					
36	(a) Per customer per month					
37	(b) Annual Inflation of:					
38	(c) If Applicable					3.00%
39	(d) Based on Testing Cost of \$5.00 Per Year Per Customer					
40	(e) Miscellaneous Expenses of \$200 per month					
41	(f) See Property Tax Calculation					

Woodruff Water Company
Schedule for the Computation of Projected
Property Taxes for the Years Ended

Exhibit
Schedule 2b
Page 1
Witness: Kozoman

Line No.	Year					Revised
	1	2	3	4	5	
1						
2						
3	Revenue Component 1	\$ 102,600	\$ 102,600	\$ 102,600	\$ 378,440	\$ 733,145
4	Revenue Component 2	102,600	102,600	378,440	733,145	1,087,729
5	Revenue Component 3	102,600	378,440	733,145	1,087,729	1,433,609
6						
7	Average 3 years of revenue	\$ 205,200	\$ 389,093	\$ 809,456	\$ 1,466,209	\$ 2,169,655
8	Add:					
9	Construction Work in Progress at 10%	0	0	0	0	0
10	Deduct:					
11	Book Value of Transportation Equipment	13,500	10,500	4,500	4,500	1,500
12						
13	Full Cash Value	\$ 191,700	\$ 378,593	\$ 804,956	\$ 1,461,709	\$ 2,168,155
14						
15						
16	Times Assessment Ratio	25.00%	25.00%	25.00%	25.00%	25.00%
17						
18	Assessed Value	\$ 47,925	\$ 94,648	\$ 201,239	\$ 365,427	\$ 542,039
19						
20	Property Tax Rate (Statewide Rate Used)	12.18%	12.18%	12.18%	12.18%	12.18%
21						
22	Computed Property Tax	\$ 5,837	\$ 11,528	\$ 24,511	\$ 44,509	\$ 66,020
23						
24						
25						
26						

Woodruff Water Company
Projected Cash Flows
For the Years Ended

Exhibit
Schedule 3
Page 1
Witness: Kozoman
Revised

Line No.	0	1	2	3	4	5
Cash from Operations						
Beginning Cash Balance	\$ -	\$ 25,000	\$ 30,388	\$ 160,048	\$ 510,992	\$ 1,082,174
Income from Operations (From Income Statement, Schedule 2)		(247,512)	(233,266)	9,982	264,087	431,010
Add Depreciation expense (From Income Statement, Schedule 2)		177,900	384,286	423,189	449,161	479,619
Total Cash From Operations	\$ -	\$ (69,612)	\$ 151,020	\$ 433,171	\$ 713,248	\$ 910,629
Cash from Financing						
Deposits (security) collected	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Long-Term Debt	-	-	-	-	-	-
Common Equity	25,000	4,124,900	1,099,500	-	-	-
Advances in Aid of Const. (From Schedule 1c)	-	1,306,900	-	-	520,900	455,725
Contribution in Aid of Const. (Hook-up Fees)	-	-	-	3	-	-
Meter Deposits Collected (From Schedule 1d)	-	120,000	242,000	243,700	242,000	242,000
Total Cash from Financing	\$ 25,000	\$ 5,551,800	\$ 1,341,500	\$ 243,703	\$ 762,900	\$ 697,725
Uses of Cash:						
Long-term debt Repayment						
Advances Refunded (From Schedule 1c)	\$ -	\$ -	\$ 9,360	\$ 36,029	\$ 71,496	\$ 141,546
Meter Deposit Refunded (From Schedule 1d)	-	-	12,000	36,200	60,570	84,770
Deposit (Security) refunded						
Capital Improvements - Plant (From Schedule 1.1)	-	5,476,800	1,341,500	253,700	772,900	707,725
Total Cash Uses	\$ -	\$ 5,476,800	\$ 1,362,860	\$ 325,929	\$ 904,966	\$ 934,041
Ending Cash Balance (Line 3 + 9 + 21 - 34)	\$ 25,000	\$ 30,388	\$ 160,048	\$ 510,992	\$ 1,082,174	\$ 1,756,487
Interest Income: Assuming Earning Equal to Inflation Factor on Average Cash Balance						
Average Cash Balance ((Line 4 + Line 36)/2)	\$ 12,500	\$ 27,694	\$ 95,218	\$ 335,520	\$ 796,583	\$ 1,419,330
Interest Earned (Assumed Inflation Rate times Average Ba	\$ 375	\$ 831	\$ 2,857	\$ 10,066	\$ 23,897	\$ 42,580